BILL LOCKYER
TREASURER
STATE OF CALIFORNIA

June 1, 2011

Dr. George Diehr
Chair, Investment Committee
CalPERS Board of Administration
Lincoln Plaza North
400 Q Street
Sacramento, CA 95811

Dear Dr. Diehr:

I request CalPERS staff and members of the Investment Committee of the CalPERS Board of Administration develop a formal corporate governance policy on political campaign spending. At a minimum, the policy should state CalPERS' support for shareholder initiatives to require publicly-traded companies to disclose all their campaign contributions, including contributions to trade associations and nonprofit organizations, and to require boards of directors to oversee all political contributions made by a company. CalPERS should also be a leader in the effort to build strong institutional investor support for these initiatives.

The U.S. Supreme Court's decision in ***Citizens United v. Federal Election Commission***, 558 U.S. 08-205 (2010) opened the floodgates to unlimited corporate spending in political campaigns. Additionally, while the ruling upheld disclosure requirements in federal elections, those requirements do not apply to contributions to trade associations and nonprofit groups. Increasingly, corporations are using such groups in an attempt to cloak massive political spending in secrecy through "independent expenditure" campaigns, many of which are notorious for making unfair and unfounded personal attacks with which no company or its investors would want to be publicly associated. When such contributions are uncovered, public backlash often follows, and the economic and reputational risks to such companies are significant.

Whether or not such contributions can be kept secret, legally or practically, anonymous political spending denies investors the means to evaluate their companies' overall spending practices and priorities. In order to accurately assess a company's sustainability, shareholders must be able to analyze whether political spending is consistent with the company's values, and whether it poses risks to the firm's brand, reputation or profitability. And they must have confidence boards of directors oversee such spending with due diligence.

Concerns about the negative impact of corporate political spending on shareholders are borne out by recent academic studies. A Harvard Law School study by John Coates found a strong negative correlation between political spending and firm value.[1] Similarly, a study by a team of researchers from the University of Minnesota School of Management examined corporate contributions to political candidates for federal offices and found that donations are negatively correlated with future excess returns. The study, which examined contributions from 1991 to 2004, found that an increase of $10,000 in donations corresponded to a reduction in annual excess returns of 13.9 basis points.[2]

The *Citizens United* decision acknowledged the importance of transparency to investors. The court noted "disclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way." The ruling, however, shifts to shareholders most of the burden of actually enforcing transparency and accountability.

Support for oversight and disclosure initiatives in corporate political spending is growing. More than 75 S&P 500 companies now disclose their political expenditures and policies on their websites. In addition, shareholder groups in 2011 have submitted proposals related to political contributions and lobbying expenditures. The average vote in favor of these proposals rose from 9 percent in 2004 when such proposals were first introduced, to 30 percent in 2010, in the wake of *Citizens United*.

I look forward to working with CalPERS staff and my colleagues on the Investment Committee to examine in greater depth the risks corporate political spending poses to shareholders, and the policies and practices that best address those risks. Ultimately, our goal should be adoption of a Corporate Governance Policy that positions CalPERS as a leader in ensuring greater transparency and accountability in corporate political spending.

Sincerely,

Bill Lockyer

BILL LOCKYER
California State Treasurer

cc: Anne Stausboll, Chief Executive Officer, CalPERS
Joe Dear, Chief Investment Officer, CalPERS
Anne Simpson, Senior Portfolio Manager, Corporate Governance, CalPERS
Board Members, CalPERS Board of Administration

---

[1] Coates, IV, John C., Corporate Governance and Corporate Political Activity: What Effect Will Citizens United Have on Shareholder Wealth? (September 21, 2010). Harvard Law and Economics Discussion Paper No. 684. Available at SSRN: http://ssrn.com/abstract=1680861

[2] Aggarwal, Rajesh K., Meschke, Felix and Wang, Tracy Yue, Corporate Political Donations: Investment or Agency? (January 1, 2011). 2008 WFA Meeting Paper. Available at SSRN: http://ssrn.com/abstract=972670